**PART II CHAPTER 9: THE MANAGEMENT CONTROL AND
ASSESSMENT PROCESS (INTERIM)**

1. Last revision: June, 1995.   **MAR 11 1997**

**2. This chapter is about DCMC policies and processes that implement the DoD
Management Control Program:**

   A. Purpose - The purpose of this chapter is to provide for establishment and
assessment of management controls to meet requirements of policy and procedural
directives referenced below:

   OMB Circular A-123, Management Accountability and Control, June 25, 1995
   DoD Directive 5010.38, Management Control (MC) Program, August 26, 1996
   DoD Instruction 5010.40, Management Control (MC) Program Procedures, Undated

   B. Background: Management within DoD involves the following framework of
management principles:

   (1) *Management:* Management is commonly defined as planning, organizing
(including resource allocation), directing, and controlling an organization, business or
any other activity where the intent is to achieve a general or specific goal or objective.

   (2) *Management Controls:*

        a. Plans, organizational structure, policies, procedures and resource
allocations normally include characteristics that ensure objectives are met and "check
and balance" problems as they occur. These control characteristics are called
management controls and include delegation of authority, separation of duties, oversight
responsibility, and requirements for reporting results to higher organizational levels.
Management controls ensure achievement of objectives, compliance with quality,
product and service standards, operational and financial efficiency and personal
integrity. Managers and supervisors at all levels are required to execute management
controls established by higher levels and to institute management controls at their level
when appropriate.

        b. Management controls are defined by OMB Circular A-123 as the
organization, policies, and procedures used to reasonably ensure that:

        Programs (organizations) achieve their intended (mission) results.
        Resources are used consistent with mission.
        Programs and resources are protected from waste, fraud, and
           mismanagement.
        Laws and regulations are followed.
        Reliable and timely information is obtained, maintained, reported and
           used for decision making.

c. This Directive (DLAD 5000.4), as supplemented by DCMC policy letters, is a set of policies and procedures for managing and conducting contract administration services. As such, the One Book establishes primary policies, procedures, and management controls for CAO mission, management and administrative processes. Contract administration processes and their inherent management controls focus on contract performance and protection of government resources. Other DoD, DLA and DCMC policies and procedures provide additional management controls.

(3) *Management Control Reviews (MCRs):* Managers and supervisors are also required to review management controls for the purpose of assessing their adequacy, identifying needed improvements, taking corresponding corrective action, and reporting annually on management control effectiveness. MCRs conducted by DCMC activities may identify two types of problems: 1) problems with One Book processes or other requirements which should be referred to HQ DCMC for resolution and 2) problems with execution of a One Book process or other requirements which should be resolved locally). The results of MCRs and other reviews are reported through the Annual Statement of Assurance and the Report of Material Weaknesses.

C. Synopsis of DCMC's Program:

(1) Management controls for DCMC mission, management, and administrative functions are established by DoD, DLA, DCMC and other activities. Supplementation by DCMC field activities is made primarily to ensure proper execution and to address unique operational circumstances.

(2) DCMC management control review requirements are met through a Management Control and Assessment Process (MCAP) involving all levels of the Command—Contract Administration Offices (CAOs), District Headquarters, and DCMC Headquarters.

(3) Review of management controls in DCMC occurs through many sub-processes and is based on many sources of information:

a. Monthly Management Reviews (MMRs) of operational performance measures and indicators (metrics) are conducted at each organizational level to determine effectiveness and efficiency of operations. At the DCMC Headquarters level, an Executive Management Council and a Resource Utilization Council formed from senior District and Headquarters managers review monthly progress and resource allocation issues. The DCMC Performance Plan and other performance standards are used as performance baselines for these reviews.

b. External sources of information such as IG and GAO reports, audits, inspections, reviews, investigations, and hotline complaints provide indications of problems with management controls.

c. Self-assessment by each organization unit (CAO, District HQ, DCMC HQ) is a primary approach used by DCMC to review operational and organizational effectiveness. Self-assessment using the DCMC Management Control Review Criteria

(guidebook) provides risk-based assessment of compliance with basic mission, management, and administrative processes and review of management controls (through MCRs). Risk assessment is performed at least once every three years and is reviewed annually. Self-assessment using the DLA Performance Improvement Criteria (guidebook) provides a cross-functional perspective of the effectiveness of an overall organization. The resulting Unit Self-Assessment (USA) is conducted annually.

 d. Additionally, DCMC uses an on-site Internal Operations Assessment (IOA) conducted by a central assessment activity to validate self-assessments (both the USA and MCRs including testing of management controls). IOAs are conducted on a three-year cycle.

 e. Other assessment methodologies, used on an "as required" basis, include Contractor Assessments, Special Process Reviews, and Internal Customer Support visits (as described in paragraph 5.D (8)).

3. We do this because the DCMC Management Control and Assessment Process:

 ✓ Provides self-assurance that we are providing contract administration services that meet regulatory and customer requirements.

 ✓ Facilitates continuous improvement of mission, management, and administrative processes and stakeholder and customer satisfaction.

 ✓ Strengthens our capability for providing an accurate "Annual Statement of Assurance" to the Director, DLA and, ultimately, to the President and Congress.

4. DCMC's Policy is that:

 A. Managers and supervisors at all levels shall be responsible for and shall take timely and substantive action to assure quality and timely organizational performance, increased productivity, cost control, mitigation of adverse aspects of operations, achievement of intended mission results, integrity, and compliance with applicable law and regulations.

 B. Managers and supervisors at all levels shall comply with the DoD Management Control Program and the DCMC Management Control and Assessment Process established by this directive.

 C. Managers and supervisors at all levels shall establish management controls (where existing management controls are not adequate or when needed for local implementation), review performance information from all sources along with review of management controls, assess whether or not management controls are adequate, identify needed improvements, and take corresponding corrective action. In addition,

Managers and supervisors at all levels shall review material weaknesses referred from subordinate levels and support or direct corrective actions as required.

D. CAO Commanders, District Commanders, and Headquarters Directors shall provide an annual report each year on the effectiveness of management controls (the Annual Statement of Assurance and Report of Material Weaknesses). District Statements and Reports with supporting CAO Statements and Reports shall be provided to HQ DCMC by August 31 of each year.

E. The DCMC Headquarters Executive Team, comprised of the Associate Director, the Executive Directors, and chaired by the Commander, DCMC, shall review Command-wide results and Command-wide material weaknesses identified through MCR, USA, IOA and ASA processes or any other source, direct corrective actions as required, and report material weaknesses that constitute a Command material weakness or require Agency attention to the DLA Director.
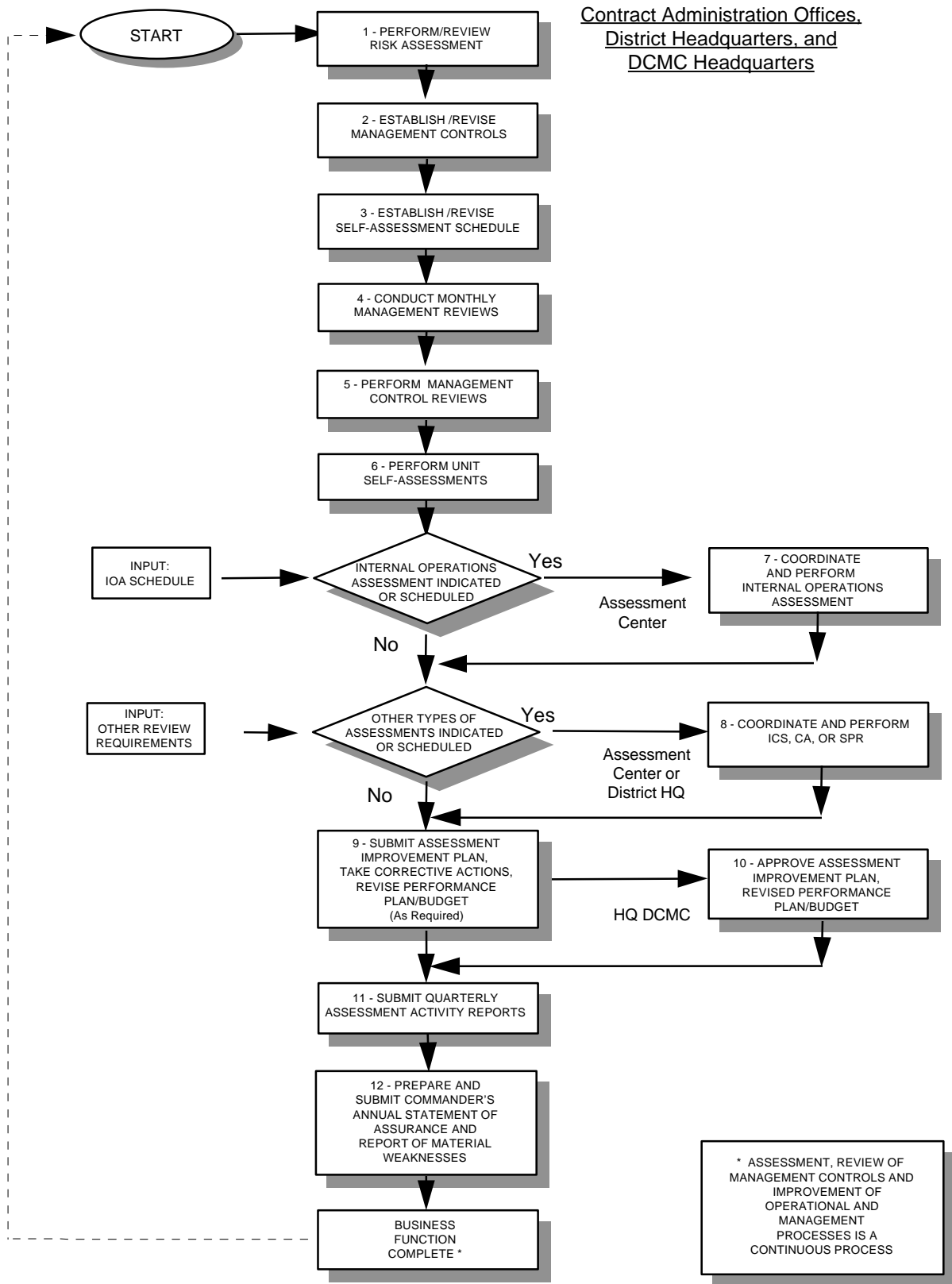
F. The DCMC Executive Council, comprised of the Associate Director, the Executive Directors, the District Commanders, and chaired by the Commander, DCMC, shall monitor and provide advice regarding the quality of assessment processes across the command.

G. The DLA Performance Improvement Criteria and the DCMC Management Control Review Criteria shall be used for evaluating management and management control effectiveness. USA reports shall be retained internally except when released by the organization Commander or the Commander, DCMC. MCR reports shall be forwarded to District headquarters. Internal Operations Assessments shall address both management effectiveness and mission, management and administrative process execution.

5. The process and who is responsible:

Inputs/Outputs	Who is Responsible
A. Inputs:	
(Start) Results of previous MCRs, assessments and external reviews.	CAO, District HQ, HQ DCMC
IOA Schedule	Assessment Center
Requirements for other reviews.	District HQ, HQ DCMC
B. Outputs:	
Self-assessment schedule	CAO, District HQ, HQ DCMC
Assessment or review report	CAO, District HQ, HQ DCMC
Improvement plan	CAO, District HQ, HQ DCMC
Revised Performance Plan	CAO, District HQ, HQ DCMC
Revised budget	CAO, District HQ, HQ DCMC
Quarterly activity reports	CAO, District HQ, HQ DCMC
Annual Statement of Assurance and Report on Management Control Weaknesses	CAO, District, HQ Staff Directors, DCMC

C. Process Flowchart:

```
        ┌─────────┐         ┌──────────────────┐       Contract Administration Offices,
  ┄┄┄┄> │  START  │ ───────>│ 1 - PERFORM/REVIEW│        District Headquarters, and
        └─────────┘         │   RISK ASSESSMENT │           DCMC Headquarters
                            └──────────────────┘
                                    │
                                    ▼
                            ┌──────────────────┐
                            │ 2 - ESTABLISH /REVISE│
                            │ MANAGEMENT CONTROLS │
                            └──────────────────┘
                                    │
                                    ▼
                            ┌──────────────────┐
                            │ 3 - ESTABLISH /REVISE│
                            │ SELF-ASSESSMENT SCHEDULE│
                            └──────────────────┘
                                    │
                                    ▼
                            ┌──────────────────┐
                            │ 4 - CONDUCT MONTHLY│
                            │ MANAGEMENT REVIEWS │
                            └──────────────────┘
                                    │
                                    ▼
                            ┌──────────────────┐
                            │ 5 - PERFORM  MANAGEMENT│
                            │   CONTROL REVIEWS │
                            └──────────────────┘
                                    │
                                    ▼
                            ┌──────────────────┐
                            │ 6 - PERFORM UNIT │
                            │ SELF-ASSESSMENTS │
                            └──────────────────┘
                                    │
                                    ▼
   ┌──────────────┐          ◇───────────────◇   Yes      ┌──────────────────┐
   │ INPUT:       │─────────>│ INTERNAL OPERATIONS│────────>│ 7 - COORDINATE   │
   │ IOA SCHEDULE │          │ ASSESSMENT INDICATED│        │ AND PERFORM      │
   └──────────────┘          │  OR SCHEDULED     │Assessment│ INTERNAL OPERATIONS│
                             ◇───────────────◇   Center   │   ASSESSMENT     │
                                    │No                    └──────────────────┘
                                    ▼                              │
                                    ◄──────────────────────────────┘
   ┌──────────────┐          ◇───────────────◇   Yes      ┌──────────────────┐
   │ INPUT:       │─────────>│ OTHER TYPES OF    │────────>│ 8 - COORDINATE AND PERFORM│
   │ OTHER REVIEW │          │ ASSESSMENTS INDICATED│       │ ICS, CA, OR SPR  │
   │ REQUIREMENTS │          │  OR SCHEDULED     │Assessment└──────────────────┘
   └──────────────┘          ◇───────────────◇  Center or        │
                                    │No       District HQ         │
                                    ▼                             │
                                    ◄─────────────────────────────┘
                            ┌──────────────────┐          ┌──────────────────┐
                            │ 9 - SUBMIT ASSESSMENT│──────>│ 10 - APPROVE ASSESSMENT│
                            │ IMPROVEMENT PLAN,  │        │ IMPROVEMENT PLAN,│
                            │ TAKE CORRECTIVE ACTIONS,│ HQ DCMC│ REVISED PERFORMANCE│
                            │ REVISE PERFORMANCE │        │ PLAN/BUDGET      │
                            │ PLAN/BUDGET        │        └──────────────────┘
                            │ (As Required)      │               │
                            └──────────────────┘                │
                                    │                           │
                                    ▼◄──────────────────────────┘
                            ┌──────────────────┐
                            │ 11 - SUBMIT QUARTERLY│
                            │ ASSESSMENT ACTIVITY REPORTS│
                            └──────────────────┘
                                    │
                                    ▼
                            ┌──────────────────┐
                            │ 12 - PREPARE AND │
                            │ SUBMIT COMMANDER'S│        ┌──────────────────────┐
                            │ ANNUAL STATEMENT OF│       │ * ASSESSMENT, REVIEW OF│
                            │ ASSURANCE AND     │        │ MANAGEMENT CONTROLS AND│
                            │ REPORT OF MATERIAL│        │ IMPROVEMENT OF        │
                            │ WEAKNESSES        │        │ OPERATIONAL AND       │
                            └──────────────────┘        │ MANAGEMENT            │
                                    │                    │ PROCESSES IS A        │
                                    ▼                    │ CONTINUOUS PROCESS    │
                            ┌──────────────────┐        └──────────────────────┘
  ┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄┄>│ BUSINESS         │
                            │ FUNCTION         │
                            │ COMPLETE *        │
                            └──────────────────┘
```

5

D. Process Steps

(1) <u>Perform/Review Risk Assessment</u> - CAOs, Districts and Headquarters Directors shall prioritize mission, management and administrative processes based on potential for noncompliance using the Management Control Review Criteria (guidebook). Findings from external reviews and previous assessments as well as Command and District guidance shall be incorporated. The risk assessment shall be conducted at a maximum interval of every three years and shall be reviewed at least annually. The risk assessment is the basis for establishing management controls in step 2 and scheduling MCRs in step 3.

(2) <u>Establish/Revise Management Controls</u> - Managers and supervisors at all levels shall establish guidance, organization, policies, procedures, rules or other organizational instructions sufficient to carry out mission and operational actions or objectives and to ensure that intended results are achieved. Management controls must be cost effective. Command and senior management controls include planning and budgeting systems, disciplinary authority, internal review procedures, policy and procedure approval authority, and review of aggregate operational and financial information. Middle management controls include separation of duties, approval authority, review boards, performance metrics, and personnel evaluations. Traditional supervisory controls include reviewing work-in-process, review or sampling of products and services at their completion, and comparison of work hours against standards.

(3) <u>Establish/Revise Self-Assessment Schedule</u> - CAOs, Districts and Headquarters Directors shall establish and maintain an annual Self-Assessment Schedule for USAs and MCRs based on the Risk Assessment.

(4) <u>Conduct Monthly Management Reviews</u> - Commander's and their direct reports shall review metrics data, MCR reports, performance plan progress, USA progress and information from other relevant sources on a monthly basis for the purpose of evaluating organizational performance and the effectiveness of management controls.

(5) <u>Perform Management Control Reviews:</u>

a. MCRs shall be conducted to evaluate mission, management and administrative processes and management controls using the Management Control Review Criteria (guidebook). MCRs shall include appropriate testing and documentation of findings. Sufficient MCRs shall be conducted to support the Annual Statement of Assurance.

b. Commanders may assign MCR coordination lead to any organizational entity. At CAOs, it is envisioned that the Technical Assessment Group (TAG) will have substantial involvement in coordinating MCRs among subject matter experts. In the interest of "separation of duties" principles, MCRs shall not be conducted by associates or immediate supervisors involved with the process being reviewed. MCRs identify management control weaknesses and support the process management category of the USA (category 6 in 1997).

(6) Perform Unit Self-Assessments - Unit Self-Assessments (USAs) shall be conducted by CAOs, District Headquarters, and HQ DCMC to evaluate overall organizational effectiveness using the DLA Performance Improvement Criteria. Organizations have the latitude to complete USAs as a single once-a-year process or as an ongoing, incremental process. Commanders may assign USA coordination lead to any organizational entity. USAs shall produce summaries of organizational strengths and weaknesses by Criteria Category and Item.

(7) Coordinate and Perform Internal Operations Assessment - A central Assessment Center, reporting to DCMC Headquarters, shall conduct Internal Operations Assessments (IOAs) at all levels of the Command on a three year cycle for the purpose of validating MCRs and USAs. IOAs focus on mission, management and administrative processes, and the effectiveness of management controls. IOAs also identify promising practices which may benefit other components of the organization.

(8) Coordinate and Perform other Types of Assessments. The following assessments are conducted on an "as required" basis after approval by the District Commander or HQ DCMC as indicated:

a. Internal Customer Support (ICS) - Internal Customer Support Visits may be conducted by Headquarters and/or district teams to provide consultation and feedback on selected key processes. The scope and content are discussed prior to the visit and linked to the Performance Improvement Criteria and this Directive (DLAD 5000.4). Output of the ICS is a feedback report provided to the organization being visited and the initiating office.

b. Contractor Assessment - Contractor Assessments may be conducted by the DCMC Assessment Center using multi-functional teams to assess contractor management systems and performance relative to contract requirements. Contractor Assessments are independent, multi-functional reviews for assessing the overall performance of a contractor's functional management system relative to individual or multiple DoD contracts. These assessments are full or partial in scope as determined prior to the assessment. Each affected management system, process, procedure and output product is analyzed in terms of contractual and regulatory requirements, organizational performance, impact on other functions, and total contractor performance at the system, process or product levels. These assessments are designed to isolate areas of concern, to facilitate the development of a performance baseline against which improvement can be measured, and to promote contractor self-governance.

(c) Special Process Review (SPR) - Special Process Reviews may be conducted by Headquarters and/or district teams based on special events, issues, or requests. A SPR is an event or issue driven review of an internal or external organization's functional and management performance relative to selected processes or programs. The SPR may be requested by a Program Manager, Process Owner, District or CAO Commander, or other client responsible for the management of the process.

(9) Submit Assessment Improvement Plan, Take Corrective Actions, Revise Performance Plan/Budget (As Required)

a. Organizations receiving an IOA or SPR report shall analyze the report to determine the critical areas, in order of priority, which may require improvement actions and shall design an Improvement Plan consisting of improvement commitments and implementing actions. The organization shall ensure that an adequate and realistic milestone schedule is established for these improvement actions and that the schedule is met. Improvement commitments should be included in performance plan and budget updates as appropriate. The Improvement Plan shall address, as a minimum, all Serious, Major, and Minor concerns and shall be provided concurrently to the District Headquarters and the Commander, DCMC. Serious and major concerns must be individually addressed. Minor concerns may be addressed individually or collectively as appropriate. Root cause analysis should not be limited to individual concerns, but should also address overarching organizational, process and management control improvements that will ensure future process and management system performance.

b. HQ DCMC staff elements (AQO/AQB) shall coordinate joint review of Improvement Plans among the CAO, District Headquarters, and the Assessment Center and provide consolidated recommendations to the Commander, DCMC.

c. AQBC shall provide overall Headquarters DCMC staff coordination for all aspects of IOA reports and Improvement Plans.

(10) Approve Assessment Improvement Plan

a. The Commander, DCMC shall review and approve acceptable CAO Improvement Plans.

b. The District Headquarters shall monitor execution of the Improvement Plan, provide assistance as appropriate, and validate satisfactory progress and closure in meeting improvement commitments.

c. Follow-up assessment visits shall be conducted by the Assessment Center when appropriate.

d. Assessment reports shall be reviewed collectively by the Assessment Center and Districts to identify Command-wide and District-wide trends. Status of remedial actions shall be provided when called upon by the DCMC Commander.

e. Assessment follow-up responsibilities are summarized in the table below. Events and timeframes are sequential from the completion of the on-site IOA.

Action/Timeframe	DCMC Commander	AQB/ AQO	Assessment Center	District	CAO
Publish Report (3 weeks)			X		
Prepare Improvement Plan (3 weeks)					X
Provide Recommendations on Improvement Plan (2 weeks)		Lead	X	X	
Approve Improvement Plan (2 weeks)	X				
Provide Assistance (As Required)		X	X	Lead	
Monitor/Validate Execution (3-6 months)				X	
Follow-Up Visit (As Required)			X		

(11) Submit Quarterly Assessment Activity Reports - Each DCMC activity shall submit a quarterly Assessment Activity Report indicating schedule changes (with a brief explanation) and completed assessment events. MCRs, USAs and external reviews from any source shall be included. Forward the initial report for each fiscal year by October 31 and quarterly updates to the District and DCMC Headquarters (AQBC) MCAP process owners by the tenth working day after the end of each quarter. (A sample report is provided in Appendix A.)

(12) Prepare and Submit Commander's Annual Statement of Assurance and Report of Management Control Weaknesses - Each CAO and District commander, Executive Director, Director and Staff Director shall submit an Annual Statement of Assurance and associated disclosures. The Annual Statement of Assurance (ASA) and the associated Report on Management Control Weaknesses shall be forwarded through the reporting chain to the DCMC Commander who shall provide an overall DCMC ASA to the DLA Director. District ASAs with supporting CAO ASAs and Reports shall be submitted to HQ DCMC by August 31 of each year. (It is not required that Annual Statements of Assurance be prescribed below the CAO Commander level. Definitions pertaining to the ASA are provided by references cited in paragraph 2.A) The annual submission shall include the following:

a. A cover memorandum, signed by the Commander providing the organization's senior management assessment as to whether there is reasonable assurance that the organization's management controls are in place and operating effectively. The statement of assurance must take one of the following three forms:

Unqualified statement of assurance: "I have reasonable assurance that management controls for mission, management, administrative, and financial objectives are in place and operating, a process for evaluating their effectiveness is operational and effective, and a procedure for correcting or evaluating any material weakness is being followed."

Qualified statement of assurance: "I have reasonable assurance that management controls for mission, management, administrative, and financial objectives are in place and operating, a process for evaluating their effectiveness is operational and effective, and a procedure for correcting or evaluating any

material weakness is being followed except that the following material weaknesses were found and remain uncorrected."

Negative statement of assurance: "I DO NOT have reasonable assurance that management controls for mission, management, administrative, and financial objectives are in place and operating, a process for evaluating their effectiveness is operational and effective, and a procedure for correcting or evaluating any material weakness is being followed."

      b. A description of how the evaluation was conducted and a statement, based on that evaluation, on the reasonable assurance achieved.

      c. A summary of uncorrected material weaknesses for the current and prior years including specific plans, actions, and schedules for correction.

      d. A summary of material weaknesses for the current and prior year that were corrected during the current year.

      e. A report of the status of accounting systems (OMB Circular A-127), if required.

      f. Other disclosures or special presentations, as required.

      g. Other disclosures as required.

6. Additional process information: (Pending final version.)

      Additional information, guidebook, lessons learned, etc.

      Reference to performance plan.

7. Competencies/certifications/resources required to execute this process:
      (Pending final version.)

      Training or competency requirements
          Title, Frequency - USA and MCR Training, initially for conducting
          USAs and MCRs.
      Certifications - None required.
      Resources
          Job series and title of positions performing - As directed by local Commander.
          Budget requirements - As identified through Performance Plan/Budget process.

8. PLAS reporting code(s):

Process	Programs
011/011T - Assessment Architecture process*	NP 011 - USA NP 012 - IOA NP XXX* - MCR

*PLAS code title will be changed to "Management Control and Assessment Process and an additional program code added for MCRs.

9. Process Owner and alternate at DCMC Headquarters:

Mr. John Glover, 703-767-2414 (DSN 427); Internet: John_Glover@hq.dla.mil.
Mr. Chuck Crippen, 703-767-2432 (DSN 427); Internet: Charles_Crippen@hq.dla.mil.
Office Symbol: AQBC